

EXECUTIVE SUMMARY

R. W. Beck, Inc. (R. W. Beck) was retained by the City of Great Falls, Montana to analyze the financial impact of customers changing their electric supplier from NorthWestern Energy (NWE) to Electric City Power of Great Falls¹ (Great Falls). Specifically, R. W. Beck evaluated how customer migration from NWE to Great Falls would affect the energy and capacity supply costs paid by NWE's remaining Default Supply customers.

NWE is the current default supplier, and under current Montana law all small and most mid-sized electricity customers in NWE's service territory must purchase their electricity from the default supplier.² NWE and others raised concerns in connection with legislation in the 2005 Montana legislature which was designed to allow the City of Great Falls (the City) to serve customers in and around the City, arguing that NWE had the economies of scale and diversity of supply that enabled NWE to provide energy more efficiently. Opponents of Great Falls' efforts have also contended that allowing customers to switch from NWE to Great Falls may have a negative financial impact on the rest of NWE's 300,000 Default Supply customers by increasing the energy and capacity supply costs paid per customer.

Our analysis of NWE's 2003 Electric Default Supply Resource Plan (NWE's 2003 Plan) and NWE's 2005 Electric Default Supply Procurement Plan (NWE's 2005 Plan), including historical load levels and market purchases, indicates that the financial argument for opposing the migration of Great Falls customers from the Default Supply is largely invalid. Our results show that if NWE's expected Default Supply load requirements remain at the projected Base Case levels, any demand decrease resulting from customers migrating from NWE to Great Falls, including the scenario of removing the entire Great Falls energy and capacity requirements, will

¹ In June of 2003, NWE unilaterally canceled supply contracts with Montana cities and schools. In August of 2003, Electric City Power was established by ordinance, and in October, the City joined Southern Montana Electric Generation and Transmission Cooperative (SME). The City applied for a license and, in October 2004, received its license from the Montana Public Service Commission (PSC) to supply electricity to large commercial customers. Then in the spring of 2005, House Bill 642, which would have allowed the City to become an electric utility and serve its own residents, was defeated in the Montana House of Representatives.

² Currently the City's operation is supplying over 5 MW to customers, which include the Great Falls Public School District, the Airport Authority, FedEx, and the Montana Air National Guard, through 2008. The City began to add another 10 MW for additional customers in September 2005. The City submitted a petition to the Public Service Commission to operate a small customer supply program that would include 10 to 15 small commercial and residential customers representing about 15,000 kW annual average usage.



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result in a positive financial impact to NWE's remaining Default Supply customers. NWE's exposure to volatile spot markets will be decreased and NWE will have to make fewer spot market energy and capacity purchases to meet Default Supply customer requirements, which is a stated goal of its planning process.³

³ NWE's 2003 Plan Summary of January 2004 states, "The primary concern regarding the current electricity supply is the portion not under contract which is purchased from the market ... We'd hate to get caught like California did a few years ago, paying huge amounts for short-term purchases ... long-term contracts make sense when a utility, like NWE, doesn't own generators." NWE's 2005 Plan (Docket No. N2005.12.172) of December 2005 states, "Without generation resources, NWE must turn to the wholesale market to buy electricity at market prices to serve its customers. As a result, the rates customers pay reflect the market price that NWE pays for electricity."